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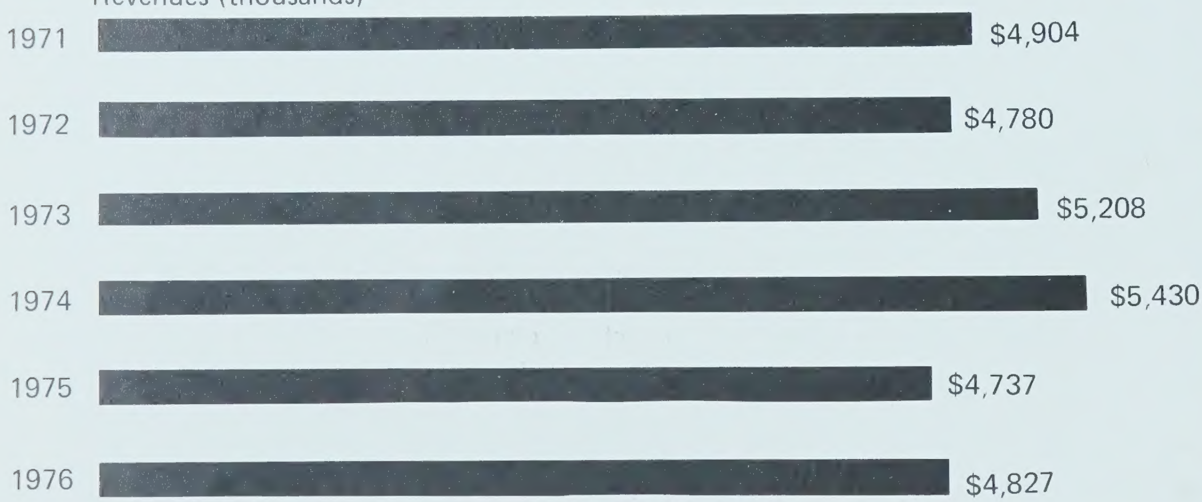
ANNUAL REPORT 1976
GREYHOUND COMPUTER OF CANADA LTD.

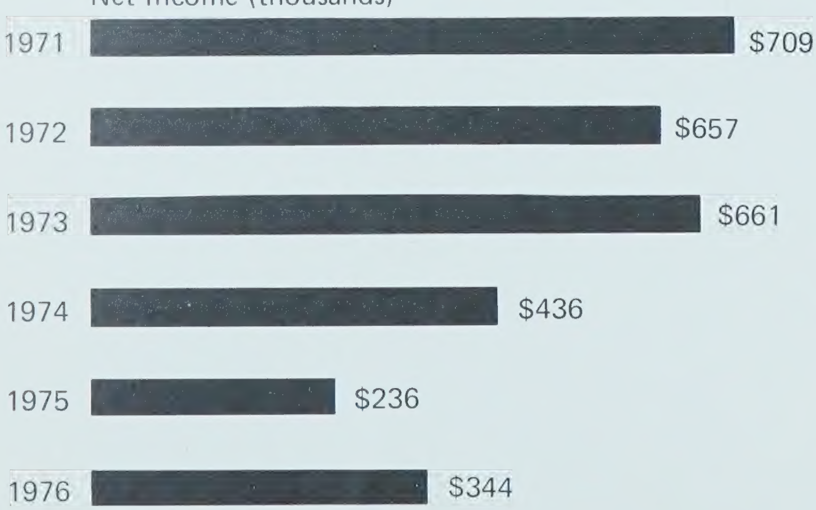
Financial Highlights

	For the year ended					
	Dec. 31, 1976	Dec. 31, 1975	Dec. 31, 1974	Dec. 31, 1973	Dec. 31, 1972	Dec. 31, 1971
Revenue	$ 4,827,087	$ 4,736,596	$ 5,429,657	$ 5,208,877	$ 4,780,156	$ 4,904,495
Income before Provision for Income Taxes	$ 696,400	$ 474,894	$ 833,307	$ 1,283,187	$ 1,369,272	$ 1,439,795
Income before Extraordinary items	$ 344,400	$ 235,894	$ 435,566	$ 661,113	$ 657,251	$ 691,102
Extraordinary items						$ 18,051
Net Income	$ 344,400	$ 235,894	$ 435,566	$ 661,113	$ 657,251	$ 709,153
Shareholders' Equity	$ 8,746,504	$ 8,402,104	$ 8,166,210	$ 7,730,644	$ 7,069,531	$ 6,412,280
Earnings per Share						
Before Extraordinairy items	9¢	6¢	11¢	17¢	16¢	17¢
Net Income	9¢	6¢	11¢	17¢	16¢	18¢
Computer Equipment Owned (at cost)	$25,556,950	$25,356,806	$25,097,041	$23,974,562	$22,762,805	$23,505,579

Revenues (thousands)



Net Income (thousands)



1976 Report to the Shareholders

Your Directors are pleased to submit the Company's Annual Report for the year ended December 31, 1976, which shows a decided improvement over the previous year. Net income for the year was $344,000 on revenues of $4,827,000, up from $236,000 on revenues of $4,737,000 in 1975. This improvement in net income of 46% produced earnings per share of nine cents in 1976 compared to six cents in the prior year. An active sales effort has made it possible to maintain overall revenues despite lower rental rates. This, together with lower interest costs due to repayment of borrowings and a stringent cost reduction program, contributed to the increase in net income.

The Company's long-term debt was reduced by $1,930,000 during the year to only $60,000 at year end. This reduction was accomplished in spite of an investment of $1,760,000 in additional equipment for sale and for lease.

The Federal Income Tax regulations were changed during the year, allowing Greyhound Computer to claim a 30% capital cost allowance rate on computer hardware acquired after May 25, 1976. This increase from the previous 20% rate will be beneficial to Greyhound Computer since it has the effect of deferring more income taxes.

Greyhound Computer's primary business continues to be the leasing of its portfolio of IBM System/360 computer equipment. In this regard, we have purchased additional memories and peripheral devices in order to enhance the value of our portfolio. We also offer our customers software in the form of computer programs which help to keep our hardware more competitive with newer systems on the market. The combination of the above results in computer systems that appeal to cost-conscious users interested in operating efficient data processing departments at lower costs.

To remain competitive, Greyhound Computer, late in 1976, announced a new product, a Greyhound Phoenix Integrated Communications Adapter. This inexpensive alternative to other terminal control units enables our equipment to communicate with other computer equipment and is expected to contribute to future revenues and profits.

Also in 1976, your Company embarked upon a brokerage program consisting of direct purchases from and sale of computer equipment to dealers and end users. In addition, we are also involved in the System 3 market through the purchase of Business Systems Technology equipment that is compatible with IBM's System 3. This equipment consists of core memory units, disk subsystems, and printers. These items are further examples of Greyhound Computer's commitment to the data processing industry.

On behalf of the Board,

W.D. Maunder
President and Chief Executive Officer

Greyhound Computer of Canada Ltd. and Subsidiary Company

(Incorporated under the Canada Corporations Act)

Consolidated Balance Sheet

Assets	December 31 1976	1975
Cash	$ 28,930	$ 39,394
Receivables (Note A):		
Finance leases and other contracts due in instalments to 1980 ($724,035, 1976,and $873,357,1975 due within one year)	$ 1,323,219	$ 2,199,341
Less unearned income	321,055	604,384
	1,002,164	1,594,957
Due from Greyhound Computer Corporation (Parent)	34,699	—
Accounts receivable, less allowance for doubtful accounts ($78,172,1976 and $78,164,1975)	157,801	310,269
	1,194,664	1,905,226
Investment in Computer Equipment (Notes A and B):		
Cost	25,556,950	25,356,806
Less accumulated depreciation	15,146,269	13,548,366
	10,410,681	11,808,440
Equipment held for resale	26,000	—
Estimated residual value of equipment on finance leases	553,484	555,984
	10,990,165	12,364,424
Other Assets	70,706	79,103
	$12,284,465	**$14,388,147**

Auditor's Report

The Shareholders,
Greyhound Computer of Canada Ltd.

We have examined the consolidated balance sheet of Greyhound Computer of Canada Ltd. as at December 31, 1976 and the consolidated statements of income and retained income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Substantially all of the assets of the Company relate to IBM System/360 leasing operations, and the recovery of the Company's investment in related computer equipment at December 31, 1976 is dependent upon the many factors described in Note B. We have reviewed the Company's forecast of future leasing operations, which anticipates recovery of its investment in computer equipment, and believe that the assumptions and the data upon which the projections were based are reasonable. However, with the uncertainties as to future rental rates and sales values of IBM System/360 equipment, the achievement of the Company's projections cannot be assured.

In our opinion, subject to the foregoing uncertainties which may affect the Company's ability to recover its investment in computer equipment, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Chartered Accountants
Toronto, Ontario
January 26, 1977

Liabilities and Shareholders' Equity	December 31 1976	1975
Short-Term Liabilities:		
Accounts payable — trade	$ 164,109	$ 203,890
Accounts payable — computer equipment	63,070	98,204
Accrued expenses	122,438	134,687
Rentals received in advance	130,968	61,346
Income taxes	763,161	481,682
Current portion of long-term debt	—	102,360
Due to Greyhound Computer Corporation (parent)	—	136,324
	1,243,746	1,218,493
Long-Term Debt (Note C)	60,000	1,988,531
Deferred Income Taxes (Note A)	2,234,215	2,779,019
	3,537,961	5,986,043
Shareholders' Equity (Note D):		
Capital stock, without par value		
Authorized — 6,000,000 shares		
Issued and fully paid		
— 4,000,000 shares	5,014,250	5,014,250
Retained income	3,732,254	3,387,854
	8,746,504	8,402,104
	$12,284,465	**$14,388,147**

On behalf of the Board

G S Clarke

Director

Director

See notes to consolidated financial statements.

Consolidated Statement of Income and Retained Income

	Year Ended December 31 1976	1975
Revenues (Note A):		
Computer rentals and sales, earned income and other	$ 4,827,087	$ 4,736,596
	$ 4,827,087	$ 4,736,596
Expenses:		
Depreciation of computer equipment (Note B)	2,789,043	2,526,327
Other direct leasing costs, including maintenance, reconfiguration and relocation of equipment	661,718	880,496
Interest on long-term debt	148,153	316,858
Selling, administrative and other operating expenses	531,773	538,021
	4,130,687	4,261,702
Income Before Income Taxes	696,400	474,894
Income Taxes (Note A):		
Currently payable	896,804	554,601
Deferred	(544,804)	(315,601)
	352,000	239,000
Net Income	344,400	235,894
Retained Income, January 1	3,387,854	3,151,960
Retained Income, December 31	**$ 3,732,254**	**$ 3,387,854**
Net Income Per Share:		
Based on average outstanding common shares (Note A-2)	$.09	$.06

See notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

	Year Ended December 31 1976	1975
Source of Funds:		
From operations		
Net income	$ 344,400	$ 235,894
Depreciation of computer equipment	2,789,043	2,526,327
Deferred income taxes	(544,804)	(315,601)
Collections on finance leases	876,112	740,494
Earned income on finance leases	(283,319)	(257,621)
Total from operations	$ 3,181,432	$ 2,929,493
Disposals of computer equipment	344,309	459,065
Increase in borrowings from parent company	—	92,593
Increase in other short-term liabilities	161,577	351,183
Decrease in accounts receivable and other assets	126,166	566,303
Tax benefits of acquired companies utilized	—	32,000
	3,813,484	4,430,637
Use of Funds:		
Purchase of computer equipment for:		
Operating leases	1,733,093	1,419,673
Finance leases and resale	26,000	643,328
Payment of long-term debt	1,928,531	2,342,075
Payment of borrowings from parent company	136,324	—
Other, net	—	10,693
	3,823,948	4,415,769
(Decrease) Increase in Cash	(10,464)	14,868
Cash, January 1	39,394	24,526
Cash, December 31	$ 28,930	$ 39,394

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
December 31, 1976

A. Significant Accounting Policies:

1. Principles of Consolidation

The accompanying financial statements include the accounts of Greyhound Computer of Canada Ltd. and its wholly-owned subsidiary, Canadian Computer Resources Limited, (the "Company"), since acquisition on November 30, 1972, using the purchase method of accounting. All significant intercompany transactions have been eliminated on consolidation. The Company is 82.9% owned by Greyhound Computer Corporation.

2. Computer Equipment

Computer equipment is stated at cost and depreciation is provided on the straight-line basis. Substantially all IBM System/360 equipment is depreciated over ten years or to December 31, 1979, whichever is shorter, to a 10% residual value for equipment purchased prior to 1975. For all IBM System/360 equipment purchased after 1974, the residual value is calculated at the greater of 10% of purchase price or 6% of IBM original selling price. Other computer equipment is depreciated to a 10% residual value to December 31, 1979. Equipment purchased for indirect leasing is depreciated at 30% per annum on the declining balance method. Repairs and maintenance expenditures, including refurbishing costs, are charged to operations as incurred.

The cost and related accumulated depreciation of assets sold or otherwise disposed of are eliminated from the equipment accounts. Gains or losses on sales or disposals of computer equipment are credited or charged to accumulated depreciation and amortized to income on a straight-line basis to December 31, 1979.

3. Accounting for Revenues and Leasing Costs.

Substantially all computer leases are accounted for on the operating method, and rentals are recognized as income when earned.

Certain computer leases are finance leases whereby non-cancellable rentals during the initial lease term exceed the original equipment cost. Finance lease receivables, unearned income and the residual value of the equipment are recorded when lease contracts become effective. The unearned income (representing the difference between the aggregate lease rentals and the cost of related equipment, commissions and other direct expenses, less estimated residual value of the computer equipment at the end of lease term) is recorded as income on a declining basis over the life of the related lease.

The net gain on brokerage transactions involving the purchase and sale of computer equipment is included in revenue.

Substantially all selling and administrative expenses and direct costs associated with leasing equipment, including installation, refurbishing and transportation expenses, are charged to income as incurred.

Sales commissions are deferred and are amortized over the life of the related leases on a straight-line basis.

4. Currency Translations

Assets bought and sold during the year and transactions relating to net income in foreign currencies are translated into Canadian dollars at the rate applicable on the date of the transaction. Asset and liability balances in foreign currencies at the close of the year are translated into Canadian dollars at the rate of exchange then in effect. Differences on translation are charged to income currently or capitalized in the case of computer equipment purchased for leasing.

5. Income Taxes

Deferred taxes are provided on timing differences between tax and financial reporting and primarily consist of depreciation and income on finance leases.

Based on current estimates, it is expected that the deferred income tax balance will be reduced in each of the next three years by approximately \$739,000 (1977); \$929,000 (1978) and \$566,000 (1979) due to the reversal of timing differences for which deferred income taxes were previously provided.

B. Investment in Computer Equipment:

The Company is a third-party lessor of data processing computer systems, principally IBM System/360 equipment. Substantially all computer leases are for initial terms of one to three years, and lease payments over the remaining non-cancellable terms are less than the Company's remaining investment of \$10,410,681 in the related computer equipment at December 31, 1976. The computer rentals over the remaining non-cancellable terms of outstanding leases at December 31, 1976 are approximately \$4,349,000 which are due as follows: \$2,942,000 (1977); \$1,039,000 (1978); \$272,000 (1979); \$66,000 (1980) and \$30,000 (1981).

Substantially all computer leases are operating leases. Accordingly, the recovery of the net investment in computer equipment is dependent upon the Company's ability to renew existing leases or to re-lease or sell the equipment on expiration of outstanding leases at satisfactory prices.

A substantial portion of computer leases have passed their non-cancellable terms and are subject to termination on 90 - 120 days' notice, in some cases upon payment of cancellation penalties. The table below sets forth, on the basis of net monthly rentals, the approximate percentages of computer equipment subject to cancellation (exclusive of equipment on-rent to affiliated companies and off-rent) at the end of 1976 and 1975.

	1976			1975
Equipment subject to lease cancellation within:	Subject to termination penalties	Without penalties	Total	Total
One year	11%	45%	56%	55%
Two years	5	24	29	32
Three or more years	4	11	15	13
	20%	80%	100%	100%

On the basis of cost, the percentage of total equipment off-rent was 17% at December 31, 1976, including 1% committed to new lessees at that date, compared to 15% and 5%, respectively at December 31, 1975.

IBM's introductions from 1970 to 1975 of (1) certain lower-priced System/360 products, (2) System/370 computer equipment and (3) programs of granting discounts and other inducements for one to four year lease commitments on certain equipment, as well as competition from other sources, continued to result in significantly lower prices on sale and lease of Greyhound Computer's System/360 equipment. In addition, IBM announced in 1976 (1) two new System/370 computer models having increased performance capabilities that priced below predecessor models, with volume deliveries commencing in early 1977 and (2) a new 9 per cent discount for four year lease commitments for both new and existing System/370 Central Processing Units.

Increases and decreases in current sales values of IBM System/360 equipment affect the future rental rates and sales values obtainable for the equipment. While sales values during 1975 and 1976 were relatively stable, continuing achievements in computer technology and the delivery of advanced computer equipment (including the recently announced lower-priced IBM System/370 models), could significantly influence estimates of useful lives and future rental or sales values.

Direct expenses incurred in leasing returned equipment and loss of rent during turnaround periods between customers are substantial. Computer leasing marketing activities from 1972 through 1976 were directed primarily toward leasing returned equipment and obtaining renewals of existing leases.

IBM's pricing of System/370 equipment has made it impracticable for the Company to purchase these new products from IBM for operating leases. The Company, since 1969, has generally limited its purchases of equipment to situations where it was contractually obligated to upgrade a customer's equipment, where upgrading was necessary to maintain profitability on existing equipment or where additional equipment could be purchased on an unusually favorable basis.

The Company has implemented certain programs to enhance the marketability of its System/360 computers and is presently developing additional enhancements, which include both extensions and modifications of the capabilities of the equipment itself (hardware) and operating and application programs (software) which improve customer utilization of the equipment.

The following table summarizes the Company's investment in computer equipment at December 31, 1976 and 1975:

	December 31, (000's Omitted) 1976		1975	
	Amount	Percent	Amount	Percent
IBM System/360, at cost:				
Central processing units:				
Models 360/30 - 40	$ 7,281	33.4%	$ 7,776	35.0%
Models 360/50 - 65	4,460	20.4	4,316	19.6
Total central processing units	11,741	53.8	12,092	54.6
Peripheral equipment:				
Printers, card read/punches and related control units	3,741	17.2	3,762	16.9
Disk and tape drives and related control units:				
High speed/capacity units	2,384	10.9	2,315	10.5
Lower speed/capacity units	3,955	18.1	4,006	18.0
Total disk and tape drives and related control units	6,339	29.0	6,321	28.5
Total peripheral equipment	10,080	46.2	10,083	45.4
Total IBM System/360 at cost	21,821	100.0	22,175	100.0
Less accumulated depreciation	13,575	62.2	12,471	56.3
	8,246	37.8%	9,704	43.7%
Other computer equipment, at cost less accumulated depreciation of $1,571,498 (1976) and $1,077,578 (1975)	2,165		2,104	
Total computer equipment, net	$10,411		$11,808	

IBM System/360 equipment was purchased primarily in the years 1968 and 1969. Based on present depreciation policies, the unrecovered investment in IBM System/360 computer equipment expressed as a percent of cost of such equipment to the Company for the three years ending December 31, 1979, on the basis set forth above, will approximate 27.0% (1977); 16.3% (1978) and 10.0% (1979).

With respect to its IBM System/360 leasing operations, the Company anticipates continued declining rental rates and sales prices, decreasing interest costs due to repayment of borrowings, and increases in certain operating costs. After careful review and evaluation of all of the above factors, management believes that the Company will be successful in recovering the remaining carrying amount of computer equipment.

C. Long-Term Debt:

Loans payable to banks are guaranteed by the parent company and are subject to revolving credit agreements aggregating $4,000,000 with an interest rate of ½ of 1% in excess of the Canadian prime bank rate. As long as the Company maintains the required borrowing base no repayment is required; accordingly, no portion of the loans is classified as currently payable at December 31, 1976. However, indebtedness to any or all such banks not renewed by May 31, the annual renewal date, or not covered by continuing guarantees by the parent, becomes payable to such bank or banks over a term of three years.

The Company has contracted in each of the revolving credit agreements that it will grant security, at the request of the banks, on its computer equipment or leases and that it will not otherwise encumber its computer equipment (other than by purchase money mortgages) or leases in Canada.

D. Stock Option Plan:

Under the Company's Incentive Stock Option Plan 150,000 shares of the Company's capital stock have been reserved for purchase by officers and key employees of the Company and its related corporations. The price per share at which the options to purchase these shares may be exercised is the market price on the dates of granting the options. Options become exercisable in four equal annual instalments commencing one year after the dates granted, and expire five years from the dates granted.

As at December 31, 1976 options were outstanding on 65,000 shares as follows:

		Shares
To directors and officers		
Granted	November 17, 1972 at $1.30 per share	20,000
	February 17, 1972 at $2.20 per share	5,000
	May 14, 1974 at $0.50 per share	29,000
To key employees of the Company		
Granted	November 17, 1972 at $1.30 per share	1,000
	May 14, 1974 at $0.50 per share	10,000
		65,000

E. Commitments:

The Company has contractual commitments in respect of net long-term leases of real property which mature July 31, 1979 and July 31, 1980. Annual rents under these leases aggregate approximately $95,000.

F. Directors and Officers:

The Company has eight directors and seven officers, of whom three are directors. The directors received no remuneration as directors and the aggregate remuneration of officers for the year ended December 31, 1976 was $117,070 ($105,083 1975).

The total remuneration of directors and senior officers (as defined by The Securities Act — Ontario) for the year ended December 31, 1976 was $166,602 ($203,101 1975).

G. Anti-Inflation Legislation:

The Company is subject to the Federal Government's Anti-Inflation Legislation, which became effective October 14, 1975. This legislation limits increases in prices, profits and compensation. The Company believes it is in compliance with this legislation.

The Anti-Inflation Legislation also restricts any dividend to a maximum of $.027 per share in the twelve month period ending October 13, 1977. The restriction that will apply to dividend payments subsequent to October 13, 1977 has not yet been announced by the Government.

Directors and Officers

Directors	Robert L. Borden, Calgary W. Carroll Bumpers, Phoenix Gordon B. Clarke, Phoenix W. Donald Maunder, Toronto Walter S. Owen, Vancouver Raymond F. Shaffer, Phoenix Olie E. Swanky, Phoenix Ralph C. Batastini, Phoenix
Officers	Olie E. Swanky, Chairman of the Board Gordon B. Clarke, Vice-Chairman W. Donald Maunder, President and Chief Executive Officer Ronald J. Camsell, Vice-President Levon Kasarjian, Jr., Secretary Robert C. Kibler, Treasurer Leonard J. Micallef, Assistant Secretary
Auditors	Touche Ross & Co., Chartered Accountants
Registrar and Transfer Agent	The Royal Trust Company
Stock Listing	The Toronto Stock Exchange
Bankers	Bank of Montreal Canadian Imperial Bank of Commerce Royal Bank of Canada The Mercantile Bank of Canada
Head Office	Guardian of Canada Tower 181 University Avenue, Suite 1416 Toronto, Ontario M5H 3M7
Annual Meeting	The annual meeting of shareholders will be held at 10 a.m. on Monday, May 2, 1977 at the Board of Trade of Metropolitan Toronto, 3rd Floor, First Canadian Place, Toronto, Ontario.